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SUBJECT: NO GOOD DEED GOES UNPUNISHED IN IRAN: THE CASE OF CENTRAL  
BANK GOVERNOR TAHMASEB MAZAHERI KHORZANI

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CLASSIFIED BY: Ramin Asgard, Acting Director, Iran Regional  
Presence Office, Department of State.  
REASON: 1.4 (d)

1.(S) Summary: Iran's Central Bank governor may be the next casualty in President Ahmadinejad's cabinet reshuffling, according to press reports. An economic consultant in Iran said that Central Bank governor Tahmasab Mazaheri ordered banks to begin implementing five new directives, in a bid to regulate the national financial market and curb inflation April 19, without first getting approval from Ahmadinejad. Instead, Mazaheri reportedly submitted his plan to Ahmadinejad's government on the same day that he ordered banks to implement it. On April 20, Ahmadinejad asked his Economic Commission to review the plan and called a meeting of top bankers in Qom. Mazaheri was noticeably missing from the meeting, which has prompted speculation that he will soon be replaced. Mazaheri was reportedly fired from his post as Economic Minister under Khatami after he refused to release monies from the Oil Stabilization Fund to influential reformists. If reports of his dismissal are accurate, it again demonstrates the continuing difficulties facing ethical technocrats within Iran's crony-laden centralized economy. End Summary.

Mazaheri's plan for controlling inflation

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2.(S) In the wake of the most recent dismissals of the Interior Minister and the Economic and Finance Minister, press articles are speculating that Central Bank of Iran (CBI) governor Tahmasab Mazaheri may be the next to go - despite having been on the job for less than one year. The technocratic Mazaheri reportedly ordered banks on April 19 to begin implementing five new directives, in a bid to regulate the national financial market and curb inflation, said an economic consultant in Iran. The directives state that:

-- Bank Maskan will be the sole source of housing loans to first-time home buyers - state owned and private banks as well as financial and credit institutions will no longer be allowed to do so.

-- Banks can not rely on the CBI for cash when offering credit to eligible clients.

-- Banks can no longer use the deposits of usury-free savings

accounts for investment in other areas. CBI approval could be granted in exceptional circumstances, such as investment in key development projects and plans that can enhance efficiency and create new job opportunities in "deprived" areas.

-- Bank interest rates have been determined according to the level of inflation plus a marginal profit to be determined. The CBI has set inflation in the last Iranian year at 18 percent, meaning the final banking rate is expected to rise from the current 12 percent in state banks to above 18 percent.

-- 33 percent of all banking credits will go to industries and mines, 25 percent to the agricultural sector, 16 percent to housing and construction, 17 percent to commerce and services, and about 9 percent to exports.

3.(S) According to the consultant, expected benefits of the plan are as follows:

-- corruption could be curbed by minimizing the activities of intermediaries in the financial network, if Bank Maskan was the sole financial entity offering housing and construction loans.

-- a better balance between supply and demand, enhanced management efficiency, and the ability to secure sufficient funds for the housing and construction markets.

-- could help the government to control and absorb excess liquidity from the market, a main factor behind the high inflation rates.

Government reaction to Mazaheri's directive

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3.(S) Mazaheri forwarded the directives to the banks and to Ahmadinejad's government at the same time, alleged the consultant, without getting the government's buy-off before

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directing banks to implement his plan. Labor Minister Mohammad Jahromi, who is reportedly a close ally of president Ahmadinejad and considered to be the government's economic spokesperson, came out on April 20 opposing the CBI package on grounds that increased banking rates of return will only hurt local industries, especially small to medium sized enterprises. Ahmadinejad also reportedly asked the Economic Commission of the government to revise the CBI plan, and called a meeting of bank governors April 20, from which Mazaheri was noticeably absent, according to press reports.

Bio notes

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4.(C) Mazaheri served as the Economic and Finance Minister under former President Khatami, until he was reportedly let go for refusing to release monies from the oil stabilization fund to influential reformists for unspecified uses. Upon his dismissal he became the Managing Director of the Export Development Bank of Iran (EDBI). When Ahmadinejad came to power in 2005, Mazaheri was appointed Deputy Economic and Finance Minister under now ex-Minister, Danesh-Jafari. According to press reports, Danesh-Jafari lobbied hard for Mazaheri's appointment as CBI governor in the fall of 2007.

5.(S) Comment: With a reputation as a technocrat and an apparent track record of probity in his economic stewardship Mazaheri is an individual who could, given the opportunity, positively influence Iran's economy. Unfortunately for him -- and perhaps also for the Iranian economy--he may be made a scapegoat, again.

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